Provisions for taxing incomes earned from stock market

2396. SHRIMATI JAYA BACHCHAN : Will the Minister of FINANCE be pleased to state:

(a) the current provisions for taxing the incomes from the stock market;

(b) whether it is a fact that investors are exempted from payment of income tax if they have held a particular scrips for more than a year;

(c) if so, whether Government is considering a proposal to further reduce this period, in view of major slides that took place on the bourses recently; and

(d) if not, the reasons therefor?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S. S. PALANIMANICKAM): (a) The income arising from transactions in the stock market may either be taxed as capital gains or as business income; depending upon the facts of a particular case.

(b) Yes, Sir. Such exemption from payment of income tax is applicable only to capital gains arising from the transfer of an asset held for more than one year, being an equity share in a company or a unit of an equility oriented fund, and where such transactions have been charged to securities transaction tax.

(c) No, Sir.

(d) A reduction in the holding period, as suggested, will encourage investors to sell their shares which could cause further slide in the market. Therefore, the proposal to reduce the period of holding is not acceptable.

Functioning of non-official Directors of nationalized banks

2397. SHRI NARESH GUJRAL: Will the Minister of FINANCE be pleased to state:

(a) whether Government is aware that some non-official Directors of nationalized banks have been putting undue pressure on the Chairman/Management to extend loans to their associates and friends; and

(b) what is the criterion of appointing non-official Directors to Bank Boards?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL): (a) No incidence of non official Directors of nationalised banks putting undue pressure on the Chairman/Management to extend loans to their associates and friends have been brought to the notice of the Government.

(b) Non-official Directors on the Boards of Nationalised Banks are nominated by Government in terms of the provisions of clause (h) of sub-section (3) of Section 9 of Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970/1980 which states "subject to the provisions of clause (i), not more than six Directors to be nominated by the Central Government." The Directors to be nominated under clause (h) of sub-section (3) shall:—

(A) have special knowledge or practical experience in respect of one or more of the following matters, namely:—

(i) agriculture and rural economy,

(ii) banking,

(iii) co-operation,

(iv) economics,

(v) finance,

(vi) law,

(vii) small-scale industry,

(viii) any other matter the special knowledge of and practical experience in, which would, in the opinion of the Reserve Bank, be useful to the corresponding new bank;

(B) represent the interests of depositors; or

(C) represent the interest of farmers, workers and artisans

The guidelines issued by the Government for selection of part-time non-official director are annexed as statement.

Statement

Details of Guidelines for Selection of Part-time Non-Official Director

The following criteria may be adopted for nomination of part-time non-official directors (NOD) on the boards of public sector banks/financial institutions etc.

(I) **GENERAL**

1. Nominations will be made keeping in view the provisions of the relevant Acts/ Rules.
2. The suitability of nominees may be assessed in terms of formal qualification and expertise, track record, integrity etc. For assessing integrity and suitability, information on criminal records, financial position, civil actions undertaken to pursue personal debts, refusal of admission to or expulsion from professional bodies, sanctions applied by regulators and similar bodies and previous questionable business practices etc. will be relied upon.
3. Persons with special academic training or practical experience in the fields of agriculture, rural economy, banking, cooperation, economics, business management, human resources, finance, law, marketing, industry and IT will ordinarily be considered.
4. As far as possible representation may also be given to women and the persons belonging to SC/ST community.

(II) **EDUCATION**

1. An NOD should at least be a graduate. Educational qualifications may be relaxed with the approval of ACC in case of farmers, depositors and artisans.

(III) **AGE**

1. The age of the Director, on the date of recommendation by Appointments Board,

should not be less than 40 years and preferably below 60 years. The upper age limit may be relaxed in case of outstanding experts, eminent persons.

(IV) **WORK EXPERIENCE**

1. professionals/academicians ***should ordinarily have 10 years of work experience*** in the particular field.

(V) **DISQUALIFICATION**

1. A director already on a Bank/FI, under any category, may not be considered for nomination as NOD on any other Bank/FI.
2. Persons connected with hire purchase, financing, investment, leasing and other para-banking activities, MPs, MLAs, MLCs and Stock Brokers will not be appointed as non-official directors on the boards of Banks/FIs.
3. No person may be re-nominated as a NOD on the Board of a Bank/FI on which he/she has served as Director in the past under any category for two terms or six years whichever is longer.
4. An NOD would not be considered for nomination as a Director on the Board of a Bank/FI if such Director has already been a NOD/shareholder/Director on the board of any other Bank/FI for six years, whether continuously or intermittently.

(VI) **PROFESSIONAL RESTRICTION**

1. NOD will not accept/will not be allotted any work of the Bank/FI for two years after demitting office as Director of that Bank/FI.
2. During his term as NOD on any Bank, such Director will not undertake any professional work (statutory audit, concurrent audit, legal retainership or empanelment as a lawyer etc.) in any other Public Sector Bank. In the case of SBI, such restrictions will cover Associate Banks as well. However, in respect of any other bank/insurance company, the firm should be allowed to be engaged, provided the non official director recuses himself/herself from handling that part of the business of the firm, where there may be a conflict of interest.
3. If a person having professional relationship with bank, including cooperative bank, is selected for being nominated on the board of any bank, he will have to sever his connection with the bank before such appointment.
4. Professionals shall not be nominated on the Board of a PSB with which they have had a business relationship during the last 3 years before such nomination.

(VII) **REGIONAL REPRESENTATION**

Effort should be made to ensure representation of all the six zones of the country-North, South, East, West, Central and North-East — on the Boards of Public Sector Banks taken together.

Service Tax on buildings of Local Self Government Institutions

2398. SHRI K. CHANDRAN PILLAI: Will the Minister of FINANCE be pleased to state:

(a) whether service tax is being levied on the buildings owned by Local Self Government Institutions too;